Withholding Tax - Correcting Withholding Payment Errors W-2s & W-2Cs

Excess withholding paid in error

If a withholding return with an erroneous excess payment is sent to the department, the taxpayer should reduce the amount of future payments during the calendar year to offset the error. The taxpayer should complete the back of Form 1094 "Income Withholding Tax Return" explaining the correction. The actual amount of the adjustment must be entered on line 2 of Form DR 1094.

If the error is discovered by the taxpayer during the following calendar year, the correction procedure is the same except the amount is entered on line 3 of Form DR 1094.

If the amount of the error is larger than the future payments to be made during the calendar year, a claim for refund can be filed to claim the difference using Form DR 0137 "Claim For Refund."

Employees

If the corrected error was reported to an employee as excess tax withheld on a pay stub, or if the amount was withheld from an employee in error and refunded to the employee, then a supplemental schedule or letter must be attached to the DR 1094 stating:

- what the error is,
- the period in which the error occurred,
- the amount of each error,
- the date the error was discovered, and
- attach an employee affidavit consenting to the refund or credit for the employer and affirmation that the employee will not claim a refund or credit of such for personal income tax purposes.

W2 errors

If the excess withholding is reported on a W2 form and the error is discovered after the due date of the W2 transmittal form, the error cannot be corrected by either the taxpayer or the department. Therefore the excess payment cannot be refunded or credited. In this case, the employee must claim the credit on the Colorado income tax return for that specific year. Reconciliation between the amount withheld from the employee and the amount credited on the W2 form must be handled between the employer and employee.

Paying less than the amount due

If a withholding return is submitted that underreports the amount due, the balance of the tax plus penalty and interest can be paid with future returns filed during the calendar year. Complete the back of Form DR 1094 "Withholding Tax Return," explaining the correction and enter the additional amount due on line 7 of Form DR 1094.

If the error is discovered in a future calendar year, the taxpayer must prepare a supplemental return,

Form DR 1094, that reports the erroneous period, the amount of additional tax due, and any applicable penalty and interest and submit the return with a payment.

W2 errors

If the reduced withholding is reported on a W2 form and the error is discovered after the due date of the W2 transmittal form, the error cannot be corrected and the additional payment cannot be submitted to the department on a withholding form. The employee can only claim the credit reported on the W2 form on their Colorado income tax return for that year. Reconciliation between the amount withheld from the employee and the amount credited on the W2 form must be handled between the employer and employee.

Correcting W2s

Informational errors

If a W2 is issued with an informational error such as an incorrect social security number or account number, the Department of Revenue will accept a W2C to correct the error. Submit the corrected W2C forms with a cover letter to 1375 Sherman St., Room 634, Denver CO 80261.

Withholding errors

If a W2 is issued with an error in the amount of Colorado tax withheld, a corrected W2C can be submitted on or before the due date (February 28) of the original W2 submittal Form DR 1093A "Transmittal of W-2s" and DR 1093B "Transmittal of 1099 Forms." The Department of Revenue will not honor any W2C filed after that due date.

If a W2C can no longer be filed and the W2 indicates that an excess amount was withheld and paid to the state of Colorado, the employer must pay the difference and include penalty and interest with a supplemental Form 1094 for the period the excess amount was withheld.

If a W2C can no longer be filed and the W2 indicates that less was withheld for Colorado than was actually withheld and paid to the state, the employer must claim a credit or refund for the difference and refund the balance to the employee.